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TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 1087
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHUJA/AMEMBASSY ABUJA 1454
RUEHAR/AMEMBASSY ACCRA 1310
RUEHDS/AMEMBASSY ADDIS ABABA 1458
RUEHBY/AMEMBASSY CANBERRA 0719
RUEHDK/AMEMBASSY DAKAR 1084
RUEHKM/AMEMBASSY KAMPALA 1512
RUEHNR/AMEMBASSY NAIROBI 3908
RUEHFR/AMEMBASSY PARIS 1281
RUEHRO/AMEMBASSY ROME 1937
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0640
RHEHAAA/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1675
RUEKJCS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC//DHO-7//
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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000080

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AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 01/12/2016
TAGS: EFIN ECON PGOV ZI
SUBJECT: GONO'S LONG-AWAITED MONETARY POLICY STATEMENT - A
DAMP SQUIB

REF: HARARE 00076

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

¶1. (C) Presenting his Monetary Policy Statement (MPS) to the diplomatic and business community on January 31, Reserve Bank of Zimbabwe (RBZ) Governor Gono announced he would not devalue the currency because only a "holistic package" of reforms that addressed price distortions and achieved stakeholder buy-in could stabilize the economy. Going forward, he would rely on "moral suasion and advice" as his key monetary policy tools. He appealed to all stakeholders to enter into a social contract of price and income restraint and asserted that pricing and other market distortions as well as poor governance are responsible for Zimbabwe's crisis more than "illegal sanctions" or any of the GOZ's other bogeymen. In a signal that he was ready to loosen the RBZ's tight control over foreign exchange, he announced in the MPS that remittances could henceforth be paid out in forex, and he promised to ease RBZ scrutiny of forex management in the banking sector. Gono was ambiguous about ending the RBZ's budget-busting quasi-fiscal activities, which lenta further disingenuous ring to his plan in the MPS to sharply reduce money supply growth in 2007. Immediate reaction to the presentation was mixed: Most observers welcomed the long

overdue admission that Zimbabwe's problems are of its own making, but as one business leader said, there's "despair" over the lack of movement in interest and exchange rates. While Gono cleverly positioned himself as the good guy calling for change, most observers quickly realized that he has effectively thrown up his hands, admitted he can do nothing to improve the economy, and sought to shift blame elsewhere. The bottom line is that the call for a "holistic" approach is most likely a call to do nothing and the economy will continue its tailspin. End Summary.

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No Adjustment to Exchange Rate or Interest Rates
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¶2. (C) In a presentation to the diplomatic and business community on January 31 following the long-awaited Monetary Policy Statement (MPS) earlier in the day, Gono largely repeated the policy highlights he had described to the Ambassador two days earlier (Reftel). He said he would not devalue the currency, and focused mainly on price distortions, which he called more hazardous to the economy's health than either "drought or sanctions." He maintained only a "holistic package" of comprehensive reforms could stabilize the economy. He would rely on "moral suasion" and his own "advisory role," rather than the traditional monetary policy instruments of foreign exchange and interest rate adjustment, to set the country on recovery. In this vein, he called for a Prices and Incomes Restraint Social Contract among all stakeholders.

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But Tacit Loosening of Foreign Exchange Control
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¶3. (SBU) In a step that loosened foreign exchange control, he announced in the MPS that transfers from the Diaspora could be paid out, effective immediately, in foreign exchange and without limitations. Yvonne Nxumalo of Western Union commented to econoff on February 1 that this policy shift could put more forex on the street, dampen demand, and have a decelerating effect on the otherwise record-breaking recent rate of currency depreciation. (N.B. In the last two weeks alone, the Zimbabwean dollar has shed about 55 percent of its value against major currencies. The parallel market rate for large sums of forex peaked at Z$8,000:US$ in the days before the MPS, according to Nxumalo, only to drop back to about Z$6,000:US$ today as cash grew tight; the street rate is holding steady at about Z$5,000:US$.)

¶4. (SBU) In a further signal of looser forex control, Gono told the audience that the RBZ, "in a gesture of goodwill" to the banking sector, would scale down bank surveillance (except in the area of terrorist financing). He promised the bankers "no more visits" from the RBZ's foreign exchange officers.

An End to Wanton Printing?) Probably Not

¶5. (C) Expanding on the brief remark he made to the Ambassador about ring-fencing the RBZ's quasi-fiscal activities (Reftel), Gono told the gathering that the RBZ would end "intervention" with immediate effect, but not abandon parastatal projects already underway. They would be taken over by a new fiscal authority in the form of an RBZ subsidiary company, called "Fiscal." Paradoxically, in light of the ongoing commitment to the parastatals, Gono in the MPS stated that broad money supply growth would fall from its November 2006 high of 1430 percent to between 415 and 500 percent by December 2007 and subsequently to under 65 percent by December 2008.

Under Pressure in Q&A

¶6. (SBU) In a lengthy Q&A session that Gono conducted with the dignitaries, Ambassador Dell said Zimbabwe had to look inward for solutions; U.S. sanctions policy and the deterioration of bilateral relations were symptoms, not causes, of Zimbabwe's decline. He welcomed the indication that Gono had recognized that Zimbabwe's problem was political, i.e. an issue of governance, not economic. The Ambassador expressed hope that the Governor's "holistic" approach to reform would include addressing the issue of governance, in which case the GOZ could count on the U.S to be a supportive and receptive partner.

¶7. (SBU) The Indian Ambassador asked what had come of

Gono's July announcement of an exchange rate advisory board, Gono replied, "I don,t need one. The best advisory board is the market." The Japanese Ambassador reminded Gono that he had promised him a schedule of sovereign debt payments in May 2006, and was still waiting for word. Gono pleaded, only half-jokingly, for the write-off of Zimbabwe's US$4.1 billion external sovereign debt.

¶8. (SBU) UK Ambassador Pocock echoed Ambassador Dell's remarks in calling for policy leadership by the RBZ. He asked for clarity on exchange rate policy, particularly in the short term until the currency could float, and cited the fixed exchange rate as the economy's single greatest distortion. Donors could not "deliver" under present circumstances. Several other Ambassadors made a case for special exchange rates for their embassies and their own humanitarian programs.

¶9. (SBU) Canadian Ambassador Dube said meaningful policy changes had to be implemented in the next weeks. Gono replied that there was indeed a record of too many words and too little action. He also conceded that the GOZ had signed "lots of MOUs" that had not translated into programs.

Comment

¶10. (C) Gono got the disastrous effect of price distortions on the economy and on governance right. But, as Ambassador Pocock pointed out, the most far reaching price distortion, and the one that Gono did not touch, is the fixed foreign exchange rate. In fact, his vague policy statement failed to address any of the country's critical structural issues in a serious manner. Trying to please everyone, on the one hand Gono publicly allied himself with the reform minded, but he also cleverly pandered to Mugabe and the old man's loathing of any devaluation. By leaving the exchange rate fixed at a time of quadruple-digit inflation, he maintained in place Mugabe's key tool for keeping the top people dirty) access to cheap forex, and attempted to focus attention away from his own role in precipitating the current economic meltdown.

¶11. (C) We don't see any reason why the politically well connected, who are making super profits exploiting exactly the price distortions that Gono described, have anything to gain by subscribing to his proposed social contract. Looking ahead, we see no end to Zimbabwe's economic slide under these monetary and fiscal policies. Until there is a political commitment to reform, money supply will likely continue to grow, the budget deficit balloon, and inflation remain in the stratosphere, and the will to reform will remain in painfully short supply while Mugabe calls the shots.
DELL